BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of the Petition of Northern States Power Company for Approval of Capital Structure Prior to the Issuance of Securities.

ISSUE DATE: February 1, 1988

DOCKET NO. G,E-002/S-87-651

ORDER APPROVING PETITION AND REQUIRING FUTURE FILINGS

PROCEDURAL HISTORY

On October 6, 1987, Northern States Power Company (NSP or the Company) filed with the Minnesota Public Utilities Commission (the Commission) a petition for approval of capital structure for the issuance of securities in 1988, pursuant to Minn. Stat. § 216B.49 (1986) and Minnesota Rules, parts 7825.1000 to 7825.1500.

The Minnesota Department of Public Service (DPS) submitted its Report of Investigation and Recommendation dated October 14, 1987 which recommended approval of the Company's proposed securities issuance and capital structure for 1988.

STATEMENT OF THE ISSUE

The issue before the Commission is whether the issuances of securities proposed by the Company, and the capital structure resulting from those issuances, are reasonable, proper, in the public interest, and not detrimental to the interest of ratepayers.

FINDINGS AND CONCLUSIONS

NSP, a Minnesota corporation, is a public utility company subject to regulation by the Commission under Minn. Stat. § 216B.49 (1986). The Company's proposed issuance of securities requires prior approval by the Commission under this statute.

The Company requested approval to issue up to the following amounts of new long term securities in 1988:

Preferred Stock	$100 million

Long-term Debt	$200 million

NSP requested approval to have up to $200 million in short-term debt outstanding daily in 1988. NSP also asked the Commission for authorization for a maximum total capitalization of $3,173 million, not to exceed $1,462 million of common equity, $401 million of preferred stock, and $1,473 million of total debt ($200 million of short-term debt and $1,370 of long-term debt). No new common stock will be issued; stock for employee stock ownership and dividend reinvestment plans will be purchased in the market.

NSP currently plans to issue only $50 million of preferred stock in 1988 and no long-term debt. NSP requested approval of additional amounts for each component of capital, claiming that the contingencies allow for unforeseen business or financial conditions and for the possibility of refunding higher cost existing debt or preferred stock. Not all contingency components can be fully utilized concurrently because the total capitalization requested is less than the sum of the individual amounts.

NSP estimated that its capital structures as a result of its planned financing for end-of-year 1987 and 1988 for NSP-Minnesota and the consolidated Company would be as follows:

($ in millions)

	12/31/87		12/31/88	
NSP-Minnesota				
Common Equity	$1,368	47%	$1,429	49%
Preferred Stock	301	10	351	12
Long-term Debt	1,170	40	1,139	38
Short-term Debt	89	3	17	1
Total	$2,928	100%	$2,936	100%
NSP Consolidated				
Common Equity	$1,368	45%	$1,429	46%
Preferred Stock	301	10	351	11
Long-term Debt	1,290	42	1,295	42
Short-term Debt	89	3	17	1
Total	$3,048	100%	$3,092	100%

The Company stated that proceeds from the sale of any long-term securities issued in 1988 will be used to finance part of its construction program, redeem outstanding securities, reduce short-term debt, and to make short-term loans to NSP-Wisconsin for construction financing and working capital. Any proceeds from industrial development bonds issued by a municipality or county will be used to pay for the construction of water pollution control or solid waste disposal facilities or the redemption of outstanding tax exempt issues.

Minn. Stat. § 216B.49 directs the Commission to give due consideration to the nature of the business of the Company, its credit and prospects, the possibility that the value of the property may change from time to time, the effect which the issuance shall have upon the management and operation of the Company, and other considerations which the Commission as a matter of fact shall find relevant in ascertaining whether the amount of securities of each class bear a reasonable proportion to each other and to the value of NSP's property. One purpose of this statutory requirement is to prevent the utility from issuing debt which is unreasonable in proportion to the entire capitalization of the utility. Unreasonably high levels of debt in a utility's capital structure can endanger the utility's ability to finance its operations and impair its capital, thus impairing the utility's ability to provide safe and reliable service to the public. The Commission finds that on the basis of safety to the utility's long term credit, giving due consideration to its prospects, the effect upon management and operation to the company and the other factors set out in the statute, the financing proposed by NSP is reasonable.

Minn. Stat. § 216B.49 also requires the Commission to find that the proposed capital structure is reasonable and proper and in the public interest and will not be detrimental to the interests of the consumers and patrons affected thereby. The purpose of this requirement is to prevent the utility from overissuing securities which would unreasonably burden utility ratepayers with excessive capital charges resulting in unjust and unreasonable rates. Ratemaking requires a balancing of safety for investors and economy for ratepayers. In the Company's most recent general rate cases, Northern States Power Company, Docket No. E-002/GR-85-558 (June 2, 1986) and Northern States Power Company, Docket No. G-002/GR-86-160 and G-002/M-86-165 (January 27, 1987), the Commission found NSP's proposed test year equity ratios of 45.99% and 45.45%, respectively, were unreasonably burdensome to ratepayers. The Commission used a 45.00% equity ratio for ratemaking purposes in those dockets. This finding was consistent with findings in earlier cases. Despite the finding that 45% equity was the just and reasonable level of common equity in the Company's capital structure and despite Commission warnings that actual ratios in excess of that amount would not be allowed for ratemaking, NSP's common equity ratio has followed a trend of increase over the last seven years. The common equity ratio of NSP-Consolidated has risen from 40% as of December 31, 1982 to a forecasted level for December 31, 1988 of 46%; the common equity ratio of NSP-Minnesota has increased from 42% to 49% over the same period. [1]

The Commission finds that the trend of an increased ratio of common equity to capitalization forecasted by the Company for 1988 is inconsistent with the levels approved in prior rate cases. The Commission finds that the estimated NSP consolidated equity ratio of 46% for year-end 1988, while excessive for ratemaking purposes, is not a basis to deny NSP's Petition for approval of a capital structure for issuance of securities which tend to reduce the equity ratio or prevent it from being higher than it would be without the issuance of those securities.

The Commission finds that forecasted increases in the common equity ratio in the capital structure in 1988 will come from retained earnings, not issuance of securities. The Commission neither approves nor disapproves the forecasted retention of earnings which will cause NSP's equity ratio to rise. It is unnecessary to do so in order to find that the capital structure resulting from the proposed issuance of securities is reasonable, proper and in the public interest. It is sufficient to point out that the retention of earnings which will increase NSP's equity ratio by year-end 1988 will

[1] The Commission notes that the consolidated capital structure, not that of NSP-Minnesota, has been the basis for ratemaking.

be relevant in considering the appropriate capital structure for ratemaking purposes. As it has in prior rate orders and orders approving the issuance of securities, the Commission continues to put NSP on notice that the Company will have to justify its ratemaking capital structure in future rate cases. As the Commission noted in United Telephone Company, Docket No. P-430/GR-83-599, Order After Reconsideration (September 6, 1984) at 3: "If a company's request for an increase is due, in part, to its capital structure, the company should also bear the burden of justifying the portion of the increase attributable to its management's choice of capital structure. South Central Bell v. Louisiana PSC, 373 So.2d 478 (1979)."

The Commission finds that the financing through preferred stock, long term debt and short term debt proposed by NSP in its Petition will result in a lower common equity ratio than if the financing did not occur, all other things being equal. NSP will not issue any new common stock in 1988. On this basis, the Commission will approve NSP's Petition, since the Company's proposed financing does not act to increase its already excessive equity ratio and does not result in higher rates for NSP's customers.

The Commission therefore concludes that it is reasonable, proper, in the public interest, and not detrimental to ratepayers to approve NSP's proposed securities issuances and the resulting capital structure for purposes of Minn. Stat. § 216B.49 (1986).

Minn. Rules, part 7825.1400, Subp. O, setting out filing requirements for petitions under Minn. Stat. § 216B.49 (1986) requires a utility to provide "A statement of the manner in which such securities will be issued; and if invitations for sealed written proposals (competitive bidding) are not anticipated, an explanation of the decision not to invite such proposals shall be submitted." The purpose of this rule is to aid enforcement of the Commission's rules governing affiliated interests and to ensure that the costs of financing are as low as the competitive market will allow. NSP did include a general statement in its Petition to comply with this rule that it always selected the lowest cost method of financing available depending on market conditions. This general statement does not enable the Commission to independently verify the facts. The Commission is therefore putting NSP on notice that a stricter observance of Minn. Rule Part 7825.1400, Subp. O, will be required in future filings which will require the Company to provide more detailed explanations of any decision not to use competitive bidding for any proposed security issuance. To support its explanations, the Company should describe what procedures were followed in security issuances since the prior security issuance approval.

The Commission finds that having more convenient access to information about what securities were actually issued in the past year, how they were issued, and what caused any deviations from the projections made in the prior year's petition will aid in evaluating future securities issuance petitions. Therefore, the Commission will order NSP to provide such information with its next petition under Minn. Stat. § 216B.49.

ORDER

1. Northern States Power Company is authorized issue the following securities in 1988: $200 million

of long-term debt, $100 million of preferred stock, and $200 million maximum outstanding of short-term debt.

2. The total capitalization of the Company shall not exceed $3,173 million in 1988.

3. The net proceeds to be derived from the issuance and sale of the securities described above shall be used for the purposes set forth in the Company's Petition.

4. The Company shall file a full and complete report of the issuance of the securities approved herein, including a statement of expenses incurred and the information required in Minnesota Rules, part 7825.1500, no later than thirty days after the completion of the issuance.

5. With its next petition under Minn. Stat. § 216B.49, the Company shall file a report containing the following:

   A. A description of the actual securities issued during 1988;

   B. The method of each issuance, including an explanation if competitive bidding was not used;

   C. The issuance costs of each offering; and

   D. An explanation of any deviations between the capital structure estimated for December 31, 1988 in the instant docket and the new petition.

6. With its next petition under Minn. Stat. § 216B.49, the Company shall provide a description of the issuance method proposed for each securities offering for which approval is requested, including a thorough explanation for any issuance where the Company does not propose to use competitive bidding procedures.

7. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)